

# **MAURY REGIONAL HOSPITAL**

## **Annual Financial Report**

**June 30, 2015**





# MAURY REGIONAL HOSPITAL

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*June 30, 2015*

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**SECTION I**  
**INTRODUCTORY SECTION**

**BOARD OF TRUSTEES AND MANAGEMENT OFFICIALS**  
**June 30, 2015**

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**Board of Trustees**

Doug Williamson, Chairman

Robert Thompson, M.D., Vice Chairman

Alan Watson, Secretary

Charlotte Battles

Scott Gaines

Sue Gray, M.D.

Mike Green

Houston Jameson, M.D. (ex-officio)

Houston Parks

Mike Tyler, D.D.S.

**Management Officials**

Alan Watson, Chief Executive Officer

Nick Swift, Chief Financial Officer

Paul Betz, Chief Operating Officer

Chris Edwards, M.D., Chief Medical Officer

Deborah Lumpkins, Chief Nursing Officer



**MAURY REGIONAL  
MEDICAL CENTER**

October 16, 2015

To the State of Tennessee - Comptroller of the Treasury  
Department of Audit & Municipal Division and  
Patrons of the Hospital:

State law requires all entities operating in the public sector to publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with accounting standards generally accepted in the United States of America. Pursuant to that requirement, we hereby issue this annual financial report for Maury Regional Hospital, headquartered in Columbia, Tennessee. The reporting period is the twelve months ended June 30, 2015.

Maury Regional Hospital, the Hospital, was created in 1953 by a Private Act of the State of Tennessee. The Hospital is a proprietary enterprise fund of Maury County, Tennessee and the nine members of the Board of Trustees are appointed by the Maury County Commission to three year terms.

As a proprietary enterprise fund of Maury County, the Hospital is required to use the same accounting principles generally accepted in the United States, otherwise known as GAAP, as similar Hospitals in the private sector. In addition to the Notes to the Financial Statements, GAAP prescribes three basic financial statements: Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows.

If you have any questions about this report or need additional information, contact the Board of Trustees of Maury Regional Hospital at 1224 Trotwood Ave., Columbia, Tennessee 38401.

Respectfully Submitted,

Doug Williamson, Chairman  
Board of Trustees

**SECTION II**  
**FINANCIAL SECTION**



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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of  
Maury Regional Hospital:

### ***Report on the Combined Financial Statements***

We have audited the accompanying combined financial statements of the business-type activities and aggregate discretely presented component units of Maury Regional Hospital (the Hospital), a part of the primary government of Maury County, Tennessee, as of and for the years ended June 30, 2015 and 2014, and the related notes to the combined financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Combined Financial Statements***

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the aggregate discretely presented component units of Maury Regional Hospital as of June 30, 2015 and 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphases of Matters***

As discussed in Note A, the combined financial statements present only the business-type activities and the aggregate discretely presented component units of Maury Regional Hospital and do not purport to, and do not, present fairly the financial position of Maury County, Tennessee as of June 30, 2015 and 2014, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Also, as discussed in Note A to the combined financial statements, during the year ended June 30, 2015, the Hospital adopted a newly issued accounting standard that requires retroactive adjustments to amounts previously reported as of and for the year ended June 30, 2014 with a cumulative effect adjustment to net position as of June 30, 2013. Our opinions are not modified with respect to this matter.

### ***Other Matters***

*Required Supplementary Information:* Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A), the Schedule of Changes in Net Pension Liability and Related Ratios (shown on page 37) and the Schedule of Actuarial Contributions (shown on page 38) be presented to supplement the basic combined financial statements. Such information, although not a part of the basic combined financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic combined financial statements in an appropriate operational, economic, or historical context. However, Maury Regional Hospital has elected to omit the MD&A. Our opinion on the basic financial statements is not affected by this missing information. We have applied certain limited procedures to the included required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic combined financial statements, and other knowledge we obtained during our audit of the basic combined financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information:* Our audit was conducted for the purpose of forming an opinion on the Hospital's basic combined financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic combined financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic combined financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic combined financial statements or to the basic combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal is fairly stated in all material respects in relation to the basic combined financial statements as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2015 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

*Forcing Gravelly: Amato K*

Knoxville, Tennessee  
October 16, 2015, except for our report  
on Other Information which is dated  
February 10, 2016.

# MAURY REGIONAL HOSPITAL

## Combined Statements of Net Position

	June 30, 2015		June 30, 2014 (Restated)	
	Maury Regional Hospital	Discretely Presented Component Units	Maury Regional Hospital	Discretely Presented Component Units
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 37,900,703	\$ 339,945	\$ 37,077,128	\$ 428,549
Certificates of deposit	322,164	-	320,251	-
Investments	1,532,267	-	1,129,753	-
Patient accounts receivable, net of estimated allowance for doubtful accounts of approximately \$24,500,000 in 2015 and \$21,800,000 in 2014	33,666,240	443,121	30,728,755	368,202
Inventories	4,781,254	10,378	4,413,292	36,865
Prepaid expenses	3,297,028	39,709	3,251,369	45,962
Due (to) from affiliates	555,192	(555,192)	585,192	(585,192)
Other receivables	1,794,952	1,001	1,131,981	2,089
TOTAL CURRENT ASSETS	83,849,800	278,962	78,637,721	296,475
ASSETS LIMITED AS TO USE	69,387,898	-	38,793,535	-
EQUITY INTEREST IN JOINT VENTURES	(99,446)	-	80,124	-
PROPERTY, PLANT AND EQUIPMENT, net	116,794,350	5,126,269	117,585,335	5,796,004
OTHER ASSETS	4,218,278	-	3,597,888	-
TOTAL ASSETS	274,150,880	5,405,231	238,694,603	6,092,479
DEFERRED OUTFLOWS OF RESOURCES				
Deferred pension adjustments	614,779	-	-	-
Deferred amounts from debt refunding	221,073	-	-	-
DEFERRED OUTFLOWS OF RESOURCES	835,852	-	-	-
COMBINED ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 274,986,732	\$ 5,405,231	\$ 238,694,603	\$ 6,092,479

See notes to combined financial statements.

# MAURY REGIONAL HOSPITAL

## Combined Statements of Net Position - Continued

	June 30, 2015		June 30, 2014 (Restated)	
	Maury Regional Hospital	Discretely Presented Component Units	Maury Regional Hospital	Discretely Presented Component Units
<b>LIABILITIES AND NET POSITION</b>				
<b>CURRENT LIABILITIES</b>				
Current portion of long-term debt	\$ 4,076,164	\$ 1,010,067	\$ 3,005,939	\$ 740,130
Accounts payable and accrued expenses	10,038,115	469,539	9,708,959	290,049
Accrued salaries and wages	7,294,133	-	7,022,034	-
Accrued compensated absences	6,115,974	-	5,581,195	-
Accrued workers' compensation	2,049,013	-	4,145,265	-
Estimated amounts due to third party payers, net	5,998,390	-	4,734,690	-
Interest payable	82,427	-	44,677	-
<b>TOTAL CURRENT LIABILITIES</b>	<b>35,654,216</b>	<b>1,479,606</b>	<b>34,242,759</b>	<b>1,030,179</b>
<b>OTHER LONG-TERM LIABILITIES</b>	<b>10,949,532</b>	<b>-</b>	<b>8,088,541</b>	<b>-</b>
<b>LONG-TERM DEBT</b>				
Bonds payable	37,306,694	-	12,017,892	-
Other long-term debt	1,946,118	5,223,371	6,772,553	5,762,366
	39,252,812	5,223,371	18,790,445	5,762,366
Less current portion	(4,076,164)	(1,010,067)	(3,005,939)	(740,130)
<b>TOTAL LONG-TERM DEBT</b>	<b>35,176,648</b>	<b>4,213,304</b>	<b>15,784,506</b>	<b>5,022,236</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred pension adjustments	864,558	-	1,188,985	-
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>864,558</b>	<b>-</b>	<b>1,188,985</b>	<b>-</b>
<b>NET POSITION</b>				
Net investment in capital assets	96,702,069	(97,102)	98,880,738	33,638
Unrestricted	95,639,709	(190,577)	80,509,074	6,426
<b>TOTAL NET POSITION</b>	<b>192,341,778</b>	<b>(287,679)</b>	<b>179,389,812</b>	<b>40,064</b>
<b>COMBINED LIABILITIES, DEFERRED INFLOWS AND NET POSITION</b>	<b>\$ 274,986,732</b>	<b>\$ 5,405,231</b>	<b>\$ 238,694,603</b>	<b>\$ 6,092,479</b>

See notes to combined financial statements.

# MAURY REGIONAL HOSPITAL

## *Combined Statements of Revenue, Expenses and Changes in Net Position*

	<i>Year Ended June 30, 2015</i>	
	<i>Maury Regional Hospital</i>	<i>Discretely Presented Component Units</i>
OPERATING REVENUE		
Net patient service revenue	\$ 296,154,015	\$ 4,557,230
Other operating revenue	11,412,522	1,230
TOTAL OPERATING REVENUE	307,566,537	4,558,460
OPERATING EXPENSES		
Salaries, employee benefits and contract labor	179,084,670	1,174,998
Supplies	52,940,319	123,924
Purchased services	20,879,750	1,020,599
Professional fees	3,136,365	1,243,838
Repairs and maintenance	3,836,064	28,758
Utilities	4,220,118	16,216
Leases	4,561,970	674,121
Insurance	2,066,108	6,595
Other expenses	8,774,768	161,780
Depreciation and amortization	16,880,780	680,993
TOTAL OPERATING EXPENSES	296,380,912	5,131,822
INCOME (LOSS) FROM OPERATIONS	11,185,625	(573,362)
NONOPERATING REVENUE (EXPENSES)		
Contributions and grants	1,917,901	-
Investment income	810,051	1
Interest expense	(444,286)	(254,382)
Other	(37,755)	-
Equity in joint venture losses	(479,570)	-
TOTAL NONOPERATING REVENUE (EXPENSES)	1,766,341	(254,381)
EXCESS (DEFICIT) OF REVENUE OVER EXPENSES	12,951,966	(827,743)
Capital contributions/funding	-	500,000
CHANGE IN NET POSITION	12,951,966	(327,743)
NET POSITION, BEGINNING OF YEAR	179,389,812	40,064
NET POSITION, END OF YEAR	\$ 192,341,778	\$ (287,679)

*See notes to combined financial statements.*

# MAURY REGIONAL HOSPITAL

## *Combined Statements of Revenue, Expenses and Changes in Net Position - Continued*

	<i>Year Ended June 30, 2014 (Restated)</i>	
	<i>Maury Regional Hospital</i>	<i>Discretely Presented Component Units</i>
<b>OPERATING REVENUE</b>		
Net patient service revenue	\$ 283,445,476	\$ 2,939,005
Other operating revenue	12,458,173	930
<b>TOTAL OPERATING REVENUE</b>	<b>295,903,649</b>	<b>2,939,935</b>
<b>OPERATING EXPENSES</b>		
Salaries, employee benefits and contract labor	173,212,723	1,013,589
Supplies	52,848,374	189,259
Purchased services	21,165,939	819,036
Professional fees	3,332,657	560,957
Repairs and maintenance	3,351,732	11,318
Utilities	4,889,326	23,415
Leases	4,680,051	643,424
Insurance	2,051,973	3,026
Other expenses	7,037,878	99,520
Depreciation and amortization	16,969,349	679,020
<b>TOTAL OPERATING EXPENSES</b>	<b>289,540,002</b>	<b>4,042,564</b>
<b>INCOME (LOSS) FROM OPERATIONS</b>	<b>6,363,647</b>	<b>(1,102,629)</b>
<b>NONOPERATING REVENUE (EXPENSES)</b>		
Contributions and grants	1,163,994	-
Investment income	1,022,764	-
Interest expense	(723,540)	(365,716)
Other	(6,082)	-
Equity in joint venture losses	(879,359)	-
<b>TOTAL NONOPERATING REVENUE (EXPENSES)</b>	<b>577,777</b>	<b>(365,716)</b>
<b>EXCESS (DEFICIT) OF REVENUE OVER EXPENSES</b>	<b>6,941,424</b>	<b>(1,468,345)</b>
Capital contributions/funding	-	650,000
<b>CHANGE IN NET POSITION</b>	<b>6,941,424</b>	<b>(818,345)</b>
<b>NET POSITION AT BEGINNING OF YEAR,</b>		
as previously reported	176,362,588	858,409
<b>CUMULATIVE EFFECT OF CHANGE</b>		
<b>IN ACCOUNTING PRINCIPLE</b>	<b>(3,914,200)</b>	<b>-</b>
<b>NET POSITION, BEGINNING OF YEAR</b>	<b>172,448,388</b>	<b>858,409</b>
<b>NET POSITION, END OF YEAR</b>	<b>\$ 179,389,812</b>	<b>\$ 40,064</b>

See notes to combined financial statements.

**MAURY REGIONAL HOSPITAL**

***Combined Statements of Cash Flows***

	<i>Year Ended June 30,</i>	
	<i>2015</i>	<i>2014 (Restated)</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from patients and insurance programs	\$ 296,419,251	\$ 283,422,880
Payments to vendors for supplies and other	(100,499,927)	(101,330,031)
Payments to and on behalf of employees	(179,776,501)	(167,108,455)
Other receipts	9,856,998	11,710,980
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>25,999,821</b>	<b>26,695,374</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCIAL ACTIVITIES:</b>		
Contributions and grants	1,917,901	1,163,994
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Acquisition of property, plant and equipment	(15,621,477)	(8,362,006)
Proceeds from sale of equipment	63,411	151,220
Proceeds from issuance of long-term debt	34,186,582	-
Payments on long-term debt	(13,714,312)	(5,024,391)
Interest paid on long-term debt	(569,316)	(791,436)
Deferred amounts from bond refunding	(221,073)	-
<b>NET CASH PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>4,123,815</b>	<b>(14,026,613)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest income received on cash and investments	810,051	1,022,764
Proceeds from maturities of certificates of deposit	642,415	638,022
Purchase of certificates of deposit	(644,328)	(640,502)
Purchases of investments and AWUL	(30,996,877)	(5,099,921)
Investment in joint venture	(300,000)	(393,020)
Issuance of notes receivable	(729,223)	(813,761)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(31,217,962)</b>	<b>(5,286,418)</b>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>823,575</b>	<b>8,546,337</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>37,077,128</b>	<b>28,530,791</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 37,900,703</b>	<b>\$ 37,077,128</b>

*See notes to combined financial statements.*

# MAURY REGIONAL HOSPITAL

## *Combined Statements of Cash Flows - Continued*

	<i>Year Ended June 30,</i>	
	<i>2015</i>	<i>2014 (Restated)</i>
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Income from operations	\$ 11,185,625	\$ 6,363,647
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation and amortization	16,880,780	16,969,349
Provision for bad debts	29,919,639	39,303,585
Amortization of deferred pension adjustments	(33,076)	(324,427)
Changes in:		
Patient accounts receivable	(32,857,124)	(37,203,018)
Inventories	(367,962)	525,253
Prepaid expenses	(45,659)	(419,480)
Due from affiliates	30,000	25,617
Other assets	(970,745)	(772,810)
Accounts payable and accrued expenses	329,156	2,273,036
Accrued salaries and wages	272,099	1,244,530
Accrued compensated absences	534,779	4,272
Accrued workers' compensation	(2,096,252)	265,608
Estimated amounts due to third party payers	1,263,700	(491,065)
Other long-term liabilities	1,954,861	(1,068,723)
TOTAL ADJUSTMENTS	14,814,196	20,331,727
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 25,999,821	\$ 26,695,374
SUPPLEMENTAL INFORMATION:		
Equipment acquired through capital leases	\$ 152,877	\$ 4,747,956

## MAURY REGIONAL HOSPITAL

### *Notes to Combined Financial Statements*

*Years Ended June 30, 2015 and 2014*

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#### NOTE A--ORGANIZATION

Maury Regional Hospital (the Hospital) is operated and maintained by Maury County, Tennessee, under authority of and in compliance with the provisions of Chapter 125 of the Tennessee Private Acts of 1996. The federal, state, and local governments participated in the cost of constructing and equipping the Hospital under the Hill-Burton Act. For financial reporting purposes, the Hospital is considered an enterprise fund of Maury County, Tennessee (the County).

The Hospital's primary mission is to provide healthcare services to the residents of southern and Middle Tennessee, including Giles, Hickman, Lawrence, Lewis, Marshall, Maury, Perry, Wayne, and Williamson counties. The financial statements present the Hospital and its component units. The Hospital is comprised of the following operating entities:

*Maury Regional Medical Center (MRMC)*, located in Columbia, Tennessee, has been in operation since 1953 and presently has a 275-bed capacity with 20 beds designated for skilled nursing care, and also includes five medical office buildings in its service area.

*Marshall Medical Center* is an acute care hospital, located in Lewisburg, Tennessee, which was acquired by the Hospital in 1995 and is designated a Critical Access Hospital with 25 licensed beds.

*Wayne Medical Center (WMC)* is an acute care hospital with an 80-bed capacity located in Waynesboro, Tennessee, and has been leased by the Hospital since 1995 (see Note I).

*Blended Component Units:* The combined financial statements include the following blended component units that provide healthcare services that support the Hospital's mission:

*Family Health Group, Inc. (FHG)* is a nonprofit corporation which acquires, owns, operates, and manages physician practices in the Hospital's service area. The Hospital is the sole member of FHG and funds its operating losses.

*Maury Regional Ambulatory Surgery Center (the Surgery Center)* is a nonprofit corporation that provides medical care to non-emergent patients in the Hospital's service area. The Hospital is the sole member of the Surgery Center and funds its operating losses. Operations at the Surgery Center began in fiscal year 2014.

*Maury Regional Healthcare Foundation (the Foundation)* is a not-for-profit organization formed to coordinate the fundraising activities of the Hospital. The Hospital is the sole member of the Foundation and appoints all Board members. The Hospital also funds all operating expenses of the Foundation.

## MAURY REGIONAL HOSPITAL

### *Notes to Combined Financial Statements - Continued*

#### *Years Ended June 30, 2015 and 2014*

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*Discretely Presented Component Units:* The discretely presented component units column in the financial statements includes joint ventures in which the Hospital has a majority ownership. The Hospital's intent in owning a portion of these joint ventures is to expand the healthcare services it provides. They are reported in a separate column to emphasize that they are legally separate from the Hospital and include the following entities:

*Spring Hill Imaging Center, LLC (the Imaging Center)* owns and operates an outpatient center that provides diagnostic and radiology services to patients in the Hospital's service area. The Imaging Center is owned 51% by the Hospital. The financial reports of the Imaging Center may be obtained by mailing a request to 5421 Main Street, Spring Hill, Tennessee 37174.

*Vanderbilt-Maury Radiation Oncology, LLC (VMRO)* owns and operates an outpatient center that provides radiation oncology treatment services to patients in the Hospital's service area. VMRO is owned 60% by the Hospital. Operations at VMRO began in fiscal year 2014. The financial reports of VMRO may be obtained by mailing a request to 1003 Reserve Boulevard, Suite 120, Spring Hill, Tennessee 37174.

#### NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Method of Accounting:* The Hospital utilizes the enterprise fund method of accounting. Revenue and expenses are recorded on the accrual basis using the economic resources measurement focus.

*Recently Issued or Effective Accounting Pronouncements:* In June 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 provides guidance for improved accounting and financial reporting by state and local government entities related to pensions. It also replaces the requirements of GASB Statement No. 27 and Statement No. 50, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. Additionally, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Management Date*, which is effective concurrent with Statement No. 68. Among other requirements, the Hospital will have to record a net pension liability that is based on fiduciary plan net position rather than on plan funding. The Hospital adopted these Statements in 2015 and a cumulative effect adjustment has been recorded as a restatement of net assets as of June 30, 2014 and 2013 as described below.

## MAURY REGIONAL HOSPITAL

### *Notes to Combined Financial Statements - Continued*

#### *Years Ended June 30, 2015 and 2014*

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	<i>As Previously Reported</i>	<i>Adoption of GASB No. 68</i>	<i>Other Reclassifications</i>	<i>Restated</i>
Other long-term liabilities	\$ 5,398,829	\$ 2,689,712	\$ -	\$ 8,088,541
Net position - unrestricted	84,387,771	(3,878,697)	-	80,509,074
Net position	183,268,509	(3,878,697)	-	179,389,812
Salaries, employee benefits and contract labor	168,897,316	(35,503)	4,350,910	173,212,723
Income from operations	6,328,144	35,503	-	6,363,647
Excess of revenue over expenses and change in net position	6,905,921	35,503	-	6,941,424

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In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. Statement No. 72 defines fair value and describes how fair value should be measured, what assets and liabilities should be measured at fair value, and what information about fair value should be disclosed in the notes to the financial statements. This statement will become effective in fiscal 2016 and management does not expect any significant impact on the combined financial statements other than additional disclosures.

*Estimates:* The preparation of the combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

*Cash and Cash Equivalents:* Cash and cash equivalents includes cash on hand, deposits in banks and investments with a maturity of three months or less when purchased, excluding any amounts whose use is limited by Board designation.

*Inventories:* Inventories consist principally of medical and surgical supplies and are reported at the lower of cost or market, with cost determined by the average cost method.

*Patient Accounts Receivable:* Patient accounts receivable are reported net of an estimated allowance for contractual adjustments and an estimated allowance for uncollectible accounts. The contractual allowance represents the difference between established billing rates and estimated reimbursement from Medicare, TennCare and other third party payer programs. The bad debt allowance is estimated based upon the age of the account, prior experience and any unusual circumstances which affect the collectibility. The Hospital's policy does not require collateral or other security for patient accounts receivable and the Hospital routinely accepts assignment of, or is otherwise entitled to receive, patient benefits payable under health insurance programs, plans or policies.

*Investments and Assets Limited as to Use:* Investments and assets limited as to use are reported at estimated fair value based on quoted market prices. Interest, dividends, and gains and losses

## MAURY REGIONAL HOSPITAL

### *Notes to Combined Financial Statements - Continued*

#### *Years Ended June 30, 2015 and 2014*

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(realized and unrealized) are included in investment income. The Board has designated certain assets as limited as to use for future capital improvements. Included in assets limited as to use is approximately \$19,000,000 in bond funds restricted for future capital additions.

*Property, Plant and Equipment:* Property, plant and equipment is reported at cost or fair value at date of gift, if donated. The Hospital has established a capitalization threshold of \$1,000. Depreciation is calculated by the straight-line method to allocate the cost of the assets (other than land) over their estimated useful lives which ranges from 3 to 20 years for equipment and 10 to 40 years for buildings and land improvements. Equipment held under capital lease obligations is amortized using the straight-line method over the shorter of the estimated useful life or the lease term. This amortization is included with depreciation expense and as part of accumulated depreciation in the combined financial statements. Interest costs incurred on applicable borrowings outstanding during the construction period of capital assets is capitalized as part of the cost of acquiring the asset and is amortized on the same basis as the related capital asset. Costs of maintenance and repairs are charged to expense when incurred. The Hospital periodically reviews property, plant, and equipment for indications of potential impairment. Management does not believe any impairment exists as of June 30, 2015.

*Intangible Assets:* Intangible assets, including goodwill, are amortized over their estimated useful life and included in other assets in the combined financial statements.

*Compensated Absences:* The Hospital's employees earn paid time off at varying rates depending on years of service. An accrual for paid time off is recorded in the period in which the employee earns the right to the compensation. Employees also earn sick leave benefits based on varying rates depending on years of service and may accumulate sick leave up to a specified maximum. Employees are not paid for accumulated sick leave if they leave before retirement. However, employees who retire after the age of sixty may convert accumulated sick leave to termination payments. The estimated amount of sick leave which will ultimately be payable as termination payments totals approximately \$1,170,000 and \$1,970,000 at June 30, 2015 and 2014, respectively, and is reported as a noncurrent liability in the combined financial statements. The Hospital's paid time off policy was amended effective July 1, 2015 to eliminate future sick pay accruals and freeze existing sick pay accrual amounts at their June 30, 2015 amounts. In addition, the accrual for compensated absences at June 30, 2015 was modified to utilize a "years of service" factor which served to reduce the amount recorded. This change in method resulted in a reduction of the amount recorded by approximately \$680,000. Due to uncertainties in this estimate, it is at least reasonably possible that management's estimate could change in 2016.

*Net Position:* *Net investment in capital assets* consists of capital assets, net of accumulated depreciation and reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Unrestricted net position* is remaining assets that do not meet the definition of *net investment in capital assets*. There were no assets in a restricted position at June 30, 2015.

## MAURY REGIONAL HOSPITAL

### *Notes to Combined Financial Statements - Continued*

#### *Years Ended June 30, 2015 and 2014*

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*Net Patient Service Revenue:* Net patient service revenue is reported as services are rendered at estimated net realizable amounts, including estimated retroactive revenue adjustments under reimbursement agreements with third party payers. Estimated settlements under third party reimbursement agreements are accrued in the period the related services are rendered and adjusted in future periods as final settlements are determined. An estimated provision for bad debts is included in net patient service revenue.

*Charity Care:* The Hospital provides care without charge to patients who meet certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue.

*Operating Activities:* The Hospital defines operating activities as reported on the Combined Statements of Revenue, Expenses and Changes in Net Position as those that generally result from exchange transactions, such as payments for providing services and payments for goods and services received. Non-exchange transactions, including contributions and grants, as well as interest income and interest expense, are considered nonoperating revenue and expenses.

*Contributions and Grants:* Revenues from contributions and grants are recognized when all eligibility requirements are met. Contributions and grants may be restricted for specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions, if any, are reported after nonoperating revenue and expenses.

*Income Taxes:* The Hospital meets the Internal Revenue Service definition of a governmental unit and is exempt from federal income taxes. As taxable entities, the owners of the Imaging Center and VMRO account for income taxes in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740, *Income Taxes*. At June 30, 2015, management does not believe the Hospital holds any uncertain tax positions that would require financial statement recognition or disclosure under FASB ASC 740.

*Subsequent Events:* The Hospital evaluated all events or transactions that occurred after June 30, 2015 through February 10, 2016, the date the combined financial statements were available to be issued. Management did not note any subsequent events that required recognition or disclosure in the combined financial statements.

*Reclassifications:* Certain 2014 amounts in the accompanying combined financial statements have been reclassified to conform with the 2015 presentation.

#### NOTE C--PATIENT SERVICE REVENUE AND ACCOUNTS RECEIVABLE

The Hospital has agreements with various third party payers that provide for payments to the Hospital at amounts different from established rates. The difference between the rates charged and

## MAURY REGIONAL HOSPITAL

### *Notes to Combined Financial Statements - Continued*

#### *Years Ended June 30, 2015 and 2014*

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the estimated payments from third party payers is recorded as a reduction of gross patient service charges. Revenue for patient service charges has been adjusted to the amounts estimated to be receivable under third party payer arrangements. Amounts recorded under these contractual arrangements are subject to review and final determination by various program intermediaries. Management believes that adequate provision has been made for any adjustments which may result from such reviews. However, due to uncertainties in the estimates, it is at least reasonably possible that management's estimates will change in 2016. Net patient service revenue for the years ended June 30, 2015 and 2014 decreased by approximately \$820,000 and \$1,000,000, respectively, due to adjustments of estimates or final settlements of prior periods.

A summary of the payment arrangements with significant third party payers follows:

*Medicare:* Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid primarily on a prospective basis. These rates vary according to a patient classification system that is based on clinical diagnosis, procedures utilized and other factors. The Medicare program continues to reimburse certain other services based on a per diem or on a percentage of cost up to predetermined limits. The Hospital also receives additional payments from the Medicare program for providing services to a disproportionate share of Medicaid (TennCare) and other low income patients and such amounts are not guaranteed in future periods. Approximately \$11,700,000 and \$11,300,000 of net patient accounts receivable are due from the Medicare program at June 30, 2015 and 2014, respectively.

*TennCare:* The State of Tennessee's Medicaid waiver program (TennCare) provides coverage through several managed care organizations. TennCare reimbursement for both inpatient and outpatient services is based upon prospectively determined rates and per diem amounts. Approximately \$2,900,000 and \$2,300,000 of net patient accounts receivable are from payers under the TennCare program at both June 30, 2015 and 2014, respectively.

During 2015 and 2014, the Hospital received additional distributions under the TennCare Essential Access, federal matching and other programs totaling approximately \$2,340,000 and \$1,860,000 respectively. Future distributions under these programs are not guaranteed.

*Other Payers:* The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates, discounts from established charges, and prospectively determined per diem amounts.

*Charity Care:* The Hospital provides care without charge to patients who meet certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient revenue. The estimated direct and indirect cost of providing these services totaled approximately \$5,800,000 and \$3,050,000 in 2015 and 2014,

## MAURY REGIONAL HOSPITAL

### *Notes to Combined Financial Statements - Continued*

#### *Years Ended June 30, 2015 and 2014*

respectively. Such costs are determined using a ratio of cost to charges analysis with indirect cost allocated under a reasonable and systematic approach.

A reconciliation of the amount of services provided to patients at established rates to net patient service revenue is as follows:

	<i>Year Ended June 30,</i>	
	<i>2015</i>	<i>2014</i>
Patient service charges	\$ 918,571,844	\$ 872,323,010
Contractual adjustments	(571,383,915)	(539,225,868)
Provision for bad debts	(29,919,639)	(39,303,585)
Charity care	(21,114,275)	(10,348,081)
	<u>\$ 296,154,015</u>	<u>\$ 283,445,476</u>

#### NOTE D--CASH, CASH EQUIVALENTS, CERTIFICATES OF DEPOSIT, INVESTMENTS AND ASSETS LIMITED AS TO USE

The carrying amount of deposits and investments included in the Hospital's Combined Statements of Net Position is as follows:

	<i>2015</i>	<i>2014</i>
Bank deposits	\$ 60,870,040	\$ 45,978,723
Investments	48,272,992	31,341,944
	<u>\$ 109,143,032</u>	<u>\$ 77,320,667</u>

These amounts are included in the combined financial statements as follows:

	<i>2015</i>	<i>2014</i>
Cash and cash equivalents	\$ 37,900,703	\$ 37,077,128
Certificates of deposit	322,164	320,251
Investments	1,532,267	1,129,753
Assets limited as to use	69,387,898	38,793,535
	<u>\$ 109,143,032</u>	<u>\$ 77,320,667</u>

The Hospital holds deposits only in banks participating in the State of Tennessee Collateral Pool and in banks that provide collateral for all deposits or banks that are members of the Federal Deposit Insurance Corporation (FDIC).

## MAURY REGIONAL HOSPITAL

### Notes to Combined Financial Statements - Continued

#### Years Ended June 30, 2015 and 2014

Additionally, the Hospital's deposits in financial institutions are required by State statute to be secured and collateralized by the institutions. Collateral requirements are not applicable for financial institutions that participate in the State of Tennessee's collateral pool. Collateral securities required to be pledged by the participating banks to protect their public fund accounts are pledged to the State Treasurer on behalf of the collateral pool. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

At June 30, 2015, the Hospital's bank balances for deposits totaled \$59,392,001, a majority of which was insured by the FDIC or by the bank's participation in the State of Tennessee's collateral pool. Remaining deposits totaling \$440,843 are collateralized by securities held by the financial institution and pledged as collateral for the Hospital's deposits.

The estimated fair values and maturities for investments, all of which were held in the Hospital's name by a custodial bank that is an agent of the Hospital, are as follows at June 30, 2015:

<i>Investment Type</i>	<i>Carrying Amount</i>	<i>Investment Maturities in Years</i>		
		<i>Less than 1</i>	<i>1-5</i>	<i>N/A</i>
Mutual funds - fixed income	\$ 18,084,476	\$ -	\$ -	\$ 18,084,476
Mutual funds - equity	8,669,055	-	-	8,669,055
Government agency bonds	10,982,656	1,506,490	9,476,166	-
Corporate and municipal bonds	10,536,805	3,026,315	7,510,490	-
	<u>\$ 48,272,992</u>	<u>\$ 4,532,805</u>	<u>\$ 16,986,656</u>	<u>\$ 26,753,531</u>

*Interest Rate Risk:* As a means to limiting its exposure to fair value losses by rising interest rates, the Hospital's investment policy limits investment in U.S. treasury securities, government agency bonds or notes, corporate bonds, and municipal bonds to those with maturities of less than five years.

*Credit Risk:* The Hospital's investment policy restricts investments in corporate bonds to those with a credit rating of at least BBB and municipal bonds to those with a rating of at least AA. Mutual funds' underlying investments must meet the same credit ratings as other investments. The credit rating of the Hospital's corporate and municipal bonds is as follows at June 30, 2015:

<i>Rating</i>	<i>Carrying Amount</i>
AAA	\$ 504,168
AA	3,775,258
A	5,346,484
BBB	910,895
	<u>\$ 10,536,805</u>

## MAURY REGIONAL HOSPITAL

### Notes to Combined Financial Statements - Continued

#### Years Ended June 30, 2015 and 2014

**Concentration of Credit Risk:** The Hospital's investment policy limits investments in corporate bonds to 50% of total investments with no security issuer exceeding 5% of total investments and municipal bonds to 25% of total investments with no security issuer exceeding 5% of total investments. There is no limit on investments in U.S. treasury securities, government agency bonds or notes. Mutual funds containing corporate bonds should not exceed 50% of total investments and a single mutual fund should not exceed 25% of total investments. Equity investments cannot exceed 15% of total investments. An investment in the equity of a single corporation and a single equity mutual fund should not exceed 5% and 15%, respectively, of total investments.

**Custodial Credit Risk:** For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investment or collateral. All investments are in the Hospital's name at a custodial bank.

#### NOTE E--PROPERTY, PLANT AND EQUIPMENT

A summary of changes in property, plant and equipment and related accumulated depreciation for the years ended June 30, 2015 and 2014 is as follows:

	<i>Balance July 1, 2014</i>	<i>Additions/ Transfers</i>	<i>Retirements</i>	<i>Balance June 30, 2015</i>
<u>Capital assets being depreciated</u>				
Land improvements	\$ 5,613,433	\$ -	\$ -	\$ 5,613,433
Buildings	181,214,696	1,549,955	(40,938)	182,723,713
Equipment	168,662,154	6,925,222	(1,256,205)	174,331,171
Total capital assets being depreciated	355,490,283	8,475,177	(1,297,143)	362,668,317
Less accumulated depreciation for:				
Land improvements	4,468,271	228,877	(6,170)	4,690,978
Buildings	108,490,555	7,622,722	-	116,113,277
Equipment	135,357,279	8,612,574	(1,196,816)	142,773,037
Total accumulated depreciation	248,316,105	16,464,173	(1,202,986)	263,577,292
Total capital assets being depreciated, net	107,174,178	(7,988,996)	(94,157)	99,091,025
<u>Capital assets not being depreciated</u>				
Land	8,085,975	-	(7,009)	8,078,966
Construction in progress	2,325,182	7,299,177	-	9,624,359
Total capital assets not being depreciated	10,411,157	7,299,177	(7,009)	17,703,325
Total capital assets, net	\$ 117,585,335	\$ (689,819)	\$ (101,166)	\$ 116,794,350

# MAURY REGIONAL HOSPITAL

## Notes to Combined Financial Statements - Continued

### Years Ended June 30, 2015 and 2014

	<i>Balance July 1, 2013</i>	<i>Additions/ Transfers</i>	<i>Retirements</i>	<i>Balance June 30, 2014</i>
<u>Capital assets being depreciated</u>				
Land improvements	\$ 5,607,338	\$ 6,095	\$ -	\$ 5,613,433
Buildings	175,928,849	5,285,847	-	181,214,696
Equipment	159,695,177	10,240,489	(1,273,512)	168,662,154
Total capital assets being depreciated	341,231,364	15,532,431	(1,273,512)	355,490,283
Less accumulated depreciation for:				
Land improvements	4,083,835	384,436	-	4,468,271
Buildings	100,980,555	7,510,000	-	108,490,555
Equipment	127,791,212	8,682,277	(1,116,210)	135,357,279
Total accumulated depreciation	232,855,602	16,576,713	(1,116,210)	248,316,105
Total capital assets being depreciated, net	108,375,762	(1,044,282)	(157,302)	107,174,178
<u>Capital assets not being depreciated</u>				
Land	7,830,363	255,612	-	8,085,975
Construction in progress	5,003,263	(2,678,081)	-	2,325,182
Total capital assets not being depreciated	12,833,626	(2,422,469)	-	10,411,157
Total capital assets, net	\$ 121,209,388	\$ (3,466,751)	\$ (157,302)	\$ 117,585,335

During 2015 and 2014, the Hospital capitalized interest expense on construction projects totaling approximately \$203,800 and \$59,500, respectively. Construction in progress at June 30, 2015 consists primarily of facility renovations and the total estimated costs required to complete construction in progress is approximately \$600,000.

## NOTE F--LONG-TERM DEBT

Long-term debt consists of the following as of June 30:

	<i>2015</i>	<i>2014</i>
<b>Bonds Payable:</b>		
Series 2015, Maury County General Obligation Refunding and Public Improvement Bonds issued on behalf of the Hospital, with interest rates ranging from 2.00% to 5.00%, maturing over a 12-year period, with the final payment due April 1, 2027.	\$ 30,335,000	\$ -
Series 2012B, Maury County General Obligation Bonds issued on behalf of the Hospital, with interest rates from 1.50% to 2.00%, maturing over a 8-year period, with the final payment due April 1, 2020.	1,640,000	1,955,000

## MAURY REGIONAL HOSPITAL

### *Notes to Combined Financial Statements - Continued*

#### *Years Ended June 30, 2015 and 2014*

	<i>2015</i>	<i>2014</i>
Series 2006, Maury County General Obligation Bonds issued on behalf of the Hospital, with an interest rate of 5.00% with the final payment due June 1, 2016.	1,420,000	9,840,000
Total bonds payable	33,395,000	11,795,000
Unamortized premiums	3,911,694	222,892
Total bonds payable, net of unamortized premiums	37,306,694	12,017,892
Other Long-term Debt:		
Note payable with interest rate of 2.85%	-	4,222,663
Capital lease obligations - see Note I	1,946,118	2,549,890
Total other long-term debt	1,946,118	6,772,553
	39,252,812	18,790,445
Less: current portion	4,076,164	3,005,939
	<u>\$ 35,176,648</u>	<u>\$ 15,784,506</u>

The Hospital's bonds payable are general obligation bonds of Maury County, Tennessee. The bonds were issued for the purpose of acquiring property and equipment or for the retirement of previously outstanding bonds and notes and to pay issuance costs. The bonds are secured by unlimited ad valorem taxes on all taxable property within the County.

The Series 2015 Bonds were issued to finance the constructing, repairing, renovating and equipping of the Hospital in addition to prepaying the Hospital's outstanding notes payable and the remaining portion of the Series 2006 Bonds less \$1,420,000 that will be paid in 2016.

The Series 2015 Bonds maturing on or after April 1, 2026 are subject to redemption prior to maturity at the option of the County on April 1, 2025 or thereafter, at a redemption price of par plus accrued interest.

The Hospital's scheduled principal maturities on all long-term debt as of June 30, 2015 (including the capital lease obligations and excluding unamortized premiums) follows:

# MAURY REGIONAL HOSPITAL

## Notes to Combined Financial Statements - Continued

### Years Ended June 30, 2015 and 2014

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 4,076,164	\$ 1,530,340
2017	3,993,326	1,319,197
2018	3,740,084	1,235,499
2019	3,570,245	1,075,383
2020	3,726,299	907,906
2021-2025	12,260,000	2,304,000
2026-2030	3,975,000	179,850
	<u>\$ 35,341,118</u>	<u>\$ 8,552,175</u>

A schedule of changes in long-term debt for the years ended June 30, 2015 and 2014 is as follows:

	<u>Balance</u>	<u>Additions/</u>	<u>Payments/</u>	<u>Balance</u>	<u>Amounts Due</u>
	<u>July 1, 2014</u>	<u>Amortization</u>	<u>Maturities</u>	<u>June 30, 2015</u>	<u>Within</u>
					<u>One Year</u>
Bonds payable	\$ 11,795,000	\$ 30,335,000	\$ (8,735,000)	\$ 33,395,000	\$ 3,360,000
Unamortized premiums	222,892	3,688,802	-	3,911,694	-
Other long-term debt	6,772,553	152,877	(4,979,312)	1,946,118	716,164
	<u>\$ 18,790,445</u>	<u>\$ 34,176,679</u>	<u>\$ (13,714,312)</u>	<u>\$ 39,252,812</u>	<u>\$ 4,076,164</u>

	<u>Balance</u>	<u>Additions/</u>	<u>Payments/</u>	<u>Balance</u>	<u>Amounts Due</u>
	<u>July 1, 2013</u>	<u>Amortization</u>	<u>Maturities</u>	<u>June 30, 2014</u>	<u>Within</u>
					<u>One Year</u>
Bonds payable	\$ 16,000,000	\$ -	\$ (4,205,000)	\$ 11,795,000	\$ 1,735,000
Unamortized premiums	273,675	(50,783)	-	222,892	-
Other long-term debt	2,843,988	4,747,956	(819,391)	6,772,553	1,270,939
	<u>\$ 19,117,663</u>	<u>\$ 4,697,173</u>	<u>\$ (5,024,391)</u>	<u>\$ 18,790,445</u>	<u>\$ 3,005,939</u>

### NOTE G--PENSION PLAN

*Plan Description:* Prior to May 1, 1997, all employees of the Hospital were eligible to participate in the Maury Regional Hospital Retirement Plan (the Plan), a single-employer public retirement system (PERS), accounted for as a separate entity from the Hospital. The purpose of the Plan is to provide retirement, death, and certain other benefits to employees as specified in the Plan. Although it has not expressed any intention to do so, the Hospital has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions set forth in ERISA.

The Plan was amended effective May 1, 1997 to stop accrual of benefit service on April 30, 1997 for participants who made an irrevocable election to participate in the Maury Regional Healthcare System 403(b) Plan on May 1, 1997. Employees hired after May 1, 1997, are not eligible to participate in the Plan.

## MAURY REGIONAL HOSPITAL

### *Notes to Combined Financial Statements - Continued*

#### *Years Ended June 30, 2015 and 2014*

**Benefits Provided:** In addition to normal retirement benefits, the Plan also provides for early retirement and death benefits. Retirement benefits are calculated as a percent of the employee's highest average compensation during 60 consecutive months of the last 120 months of employment. Employees earn full retirement benefits once an employee has reached the age of 65. Early retirement benefits are available once an employee has reached age 55 and 5 years of service at a reduced rate based on age. Death benefits equal the actuarial equivalent value of the employee's vested accrued benefit as of the date of death. An employee who terminates service for other reasons after five years of credited service will receive retirement benefits at the normal retirement date.

**Employees Covered:** At April 30, the following employees were included in the Plan:

	<i>2015</i>	<i>2014</i>
Active employees - accruing benefits	71	92
Active employees - frozen benefits	326	366
Inactive employees with deferred benefits	266	265
Inactive employees currently receiving benefits	510	468
	<u>1,173</u>	<u>1,191</u>

**Contributions:** The Hospital funds the plan as contributions are approved by the Board of Trustees based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned during the year with an additional amount to finance any unfunded accrued liability.

**Net Pension Liability:** The Hospital's net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of April 30, 2015. The total pension liability in the actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement as of April 30:

	<i>2015</i>	<i>2014</i>
Inflation	2.5%	2.5%
Salary increases	4.0% - 7.5%	4.0% - 7.5%
Investment rate of return	8.0%	8.0%
Discount rate	8.0%	8.0%

Mortality rates were based on the 1994 Group Annuity Mortality Basic Table with mortality improvement projected to the valuation year under Projection Scale AA.

## MAURY REGIONAL HOSPITAL

### Notes to Combined Financial Statements - Continued

#### Years Ended June 30, 2015 and 2014

The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized as follows as of April 30:

<i>Asset Class</i>	<i>Target Allocation</i>	<i>Long-term Expected Real Rate of Return</i>
Large cap equities	45.00%	9.25%
Small cap equities	6.00%	11.00%
International equities	10.00%	9.75%
Emerging market equities	4.00%	12.50%
Real estate	5.00%	8.75%
Fixed income	30.00%	4.25%

The pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees assuming the actuarially determined contributions are made each year, although not required by the funding policy. Therefore, the discount rate for determining the total pension liability is equal to the long-term expected rate of return on pension plan investments.

*Changes in the Net Pension Liability:* Changes in the Hospital's net pension liability are as follows for the years ended June 30:

	<i>Total Pension Liability</i>	<i>Plan Fiduciary Net Position</i>	<i>Net Pension Liability</i>
Balance, June 30, 2013	\$ 44,912,448	\$ 40,998,248	\$ 3,914,200
Service cost	537,777	-	537,777
Interest	3,534,471	-	3,534,471
Experience gains or losses	(163,079)	-	(163,079)
Assumptions changes	-	-	-
Benefit payments	(2,538,680)	(2,538,680)	-
Administrative expenses	-	(233,515)	233,515
Investment income	-	4,539,172	(4,539,172)
Employer contributions	-	828,000	(828,000)
Balance, June 30, 2014	46,282,937	43,593,225	2,689,712

# MAURY REGIONAL HOSPITAL

## Notes to Combined Financial Statements - Continued

### Years Ended June 30, 2015 and 2014

	<i><b>Total Pension Liability</b></i>	<i><b>Plan Fiduciary Net Position</b></i>	<i><b>Net Pension Liability</b></i>
Service cost	505,975	-	505,975
Interest	3,628,986	-	3,628,986
Liability gains or losses	825,938	-	825,938
Assumptions changes	-	-	-
Benefit payments	(2,853,179)	(2,853,179)	-
Administrative expenses	-	(260,570)	260,570
Investment income	-	3,304,037	(3,304,037)
Employer contributions	-	802,000	(802,000)
Balance, June 30, 2015	<u>\$ 48,390,657</u>	<u>\$ 44,585,513</u>	<u>\$ 3,805,144</u>

The Plan's fiduciary net position as a percentage of the total pension liability was approximately 92% and 94% as of June 30, 2015 and 2014, respectively.

The following presents the net pension liability of the Hospital calculated using the current discount rate of 8.0 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.0%) or 1-percentage-point higher (9.0%) than the current rate:

	<i><b>1% Decrease 7.0%</b></i>	<i><b>Current Rate 8.0%</b></i>	<i><b>1% Increase 9.0%</b></i>
Net pension liability	\$ 8,546,754	\$ 3,805,144	\$ (297,738)

*Pension Expense and Deferred Outflows and Deferred Inflows of Resources:* For the years ended June 30, 2015 and 2014, the Hospital recognized pension expense totaling \$978,226 and \$795,372, respectively. At June 30, 2015, the Hospital reported deferred outflows of resources and deferred inflows of resources from the following sources:

	<i><b>Deferred Outflows of Resources</b></i>	<i><b>Deferred Inflows of Resources</b></i>
Differences between expected and actual experience	\$ 550,625	\$ (54,359)
Differences between projected and actual earnings	64,154	(810,199)
	<u>\$ 614,779</u>	<u>\$ (864,558)</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

## MAURY REGIONAL HOSPITAL

### *Notes to Combined Financial Statements - Continued*

#### *Years Ended June 30, 2015 and 2014*

<u>Year Ending June 30,</u>	
2016	\$ (33,076)
2017	21,284
2018	(254,027)
2019	16,040
2020	-

#### NOTE H--OTHER RETIREMENT PLANS

Effective May 1, 1997, the Hospital implemented a defined contribution plan which includes a 403(b) feature and an employer matching provision and covers substantially all hourly and salaried employees. Voluntary contributions may be made by the participants as a percentage of annual compensation not to exceed Internal Revenue Service limits. The Hospital's contribution in 2015 and 2014 consisted of a matching contribution equal to 100% of the first 3% of annual compensation and an additional matching contribution equal to 125% of the employees' contribution from 4-5% of annual compensation if the employee had five or more years of service. The Hospital's total contributions for the years ended June 30, 2015 and 2014 was approximately \$4,000,000 and \$3,960,000, respectively. Hospital employees' total contributions for the years ended June 30, 2015 and 2014 were approximately \$5,620,000 and \$5,460,000, respectively.

#### NOTE I--LEASES

*Capital Leases:* The Hospital leases medical equipment under various capital lease agreements with interest rates ranging from 2.4% to 4.5%. A summary of the leased equipment, which is included in property, plant and equipment, at June 30 is as follows:

	<u>2015</u>	<u>2014</u>
Equipment acquired under capital leases	\$ 3,437,877	\$ 3,285,000
Less accumulated amortization	(1,568,578)	(888,128)
	<u>\$ 1,869,299</u>	<u>\$ 2,396,872</u>

The following is a schedule of the future minimum lease payments required under capital leases as of June 30, 2015:

## MAURY REGIONAL HOSPITAL

### *Notes to Combined Financial Statements - Continued*

#### *Years Ended June 30, 2015 and 2014*

<u>Year Ending June 30,</u>	
2016	\$ 812,968
2017	739,381
2018	467,715
2019	51,878
2020	<u>11,404</u>
Total minimum lease payments	2,083,346
Amount representing interest	<u>(137,228)</u>
Present value of minimum lease payments	<u>\$ 1,946,118</u>

*Operating Leases:* The Hospital also rents office space and equipment under various non-cancelable operating lease agreements with varying terms. Rent expense under operating lease agreements totaled approximately \$4,560,000 and \$4,680,000 for the years ended June 30, 2015 and 2014, respectively.

Future minimum lease commitments for all significant non-cancelable operating leases, excluding discretely presented component units, are as follows:

<u>Year Ending June 30,</u>	
2016	\$ 2,023,842
2017	1,914,118
2018	1,511,127
2019	1,434,940
2020	1,453,112
2021-2025	8,172,091
2026-2030	5,493,197
2031-2035	<u>1,643,279</u>
	<u>\$ 23,645,706</u>

*Leases with Physicians:* The Hospital leases office space in its medical office buildings to physicians under non-cancelable operating leases with varying terms. Rental income under these lease agreements totaled approximately \$2,010,000 and \$1,900,000 for the years ended June 30, 2015 and 2014, respectively. Future minimum lease commitments to the Hospital for all significant non-cancelable operating leases to physicians are as follows:

## MAURY REGIONAL HOSPITAL

### *Notes to Combined Financial Statements - Continued*

#### *Years Ended June 30, 2015 and 2014*

<u>Year Ending June 30,</u>	
2016	\$ 1,071,607
2017	582,529
2018	161,139
2018	50,200
2019	33,908
	<u>\$ 1,899,383</u>

#### NOTE J--LEASED HEALTHCARE FACILITIES

Effective July 1, 2014, the Hospital entered into a five-year lease under a lease arrangement with Wayne County for the operation of several Wayne County healthcare facilities, including the county hospital, ambulance service and medical office buildings. The lease also extends to all equipment, improvements, fixtures and related personal property. The annual lease expense is \$50,000 each year and an annual capital improvement commitment of \$150,000. The lease provides for two five-year renewal options which occur automatically unless the Hospital provides notice of its intent to terminate the lease at least 180 days in advance.

#### NOTE K--COMMITMENTS AND CONTINGENCIES

*General Liability Claims:* The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Hospital maintains commercial insurance coverage for each of those risks of loss. Management believes such coverage is sufficient to preclude any significant losses to the Hospital.

*Malpractice Liability Claims:* The Hospital is subject to claims and suits arising in the ordinary course of business from services provided to patients. Losses against the Hospital are limited by the Tennessee Governmental Tort Liability Act to \$300,000 for injury or death per person and \$700,000 per occurrence. However, claims against healthcare practitioners are not subject to these limits. The Hospital maintains professional liability insurance on a claims made basis with limits of \$1,000,000 per occurrence with a retention of \$250,000 per claim and a \$3,000,000 annual aggregate with a \$750,000 annual aggregate retention. The Hospital has estimated and recorded a liability for reported claims totaling approximately \$980,000 and \$1,130,000 at June 30, 2015 and 2014, respectively. In management's opinion, the Hospital is currently not a party to any proceeding, the ultimate resolution of which will have a material adverse effect on the Hospital's results of operations or financial condition. The Hospital has not estimated any liability for incurred but not reported claims.

*Workers' Compensation Claims:* The Hospital is covered for workers' compensation claims through an insurance policy with a deductible of \$500,000 per claim. Management has recorded an accrual

## MAURY REGIONAL HOSPITAL

### *Notes to Combined Financial Statements - Continued*

#### *Years Ended June 30, 2015 and 2014*

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for the estimated liability related to claims reported as of June 30, 2015 and 2014. The Hospital was informed in 2015 that the claims with the Hospital's prior insurer, Reciprocal of America (ROA), which were believed to be liabilities of the Hospital because of ROA's bankruptcy, are now covered by another third party insurer. The liability for workers' compensation claims was reduced by approximately \$2,000,000 during 2015 as the claims occurring during the ROA policy period are no longer considered to be liabilities of the Hospital. The Hospital has not estimated any liability for incurred but not reported claims.

*Healthcare Benefits:* The Hospital maintains a partially self-insured healthcare plan to provide reimbursement for covered expenses incurred as a result of illness or injury to covered employees and dependents. Stop-loss insurance is purchased for annual claims per individual exceeding \$300,000 with an additional aggregating specific amount of \$100,000. The Hospital has estimated and recorded a liability for healthcare claims incurred but not yet reported totaling approximately \$2,590,000 and \$2,270,000 at June 30, 2015 and 2014, respectively. Employees that retire after attaining age sixty and completing twenty years of service will receive continued coverage under the Hospital's health benefit program until they attain age sixty-five or become eligible for Medicare benefits. The estimated amount of retirement health benefits payable totaled approximately \$1,175,000 and \$400,000 at June 30, 2015 and 2014, respectively, and is reported as a noncurrent liability in the combined financial statements. Due to uncertainties in the estimate, it is at least reasonably possible that management's estimate could change in 2016.

*Healthcare Industry:* The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, Medicare fraud and abuse and under the provisions of the Health Insurance Portability and Accountability Act of 1996, patient records privacy and security. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers, such as the Medicare Recovery Audit Contractor Program. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Management believes that any amounts that may be payable related to audits through the Medicare Recovery Audit Contractor program, or similar initiatives, have been estimated and recorded as Other Long-term Liabilities in the combined financial statements and therefore, any additional impact on the combined financial statements will not be significant. However, due to the uncertainties involved, management's estimate could change in the near future.

*Healthcare Reform:* In March 2010, Congress adopted comprehensive health care insurance legislation, the Patient Care Protection and Affordable Care Act and the Health Care and Education

## MAURY REGIONAL HOSPITAL

### Notes to Combined Financial Statements - Continued

#### Years Ended June 30, 2015 and 2014

Reconciliation Act. The legislation, among other matters, is designed to expand access to health care coverage to substantially all citizens through a combination of public program expansion and private industry health insurance. Changes to existing TennCare coverage and payments are also expected to occur as a result of this legislation. Implementing regulations are generally required as a result of such legislation over a period of several years. Accordingly, the impact of any future regulations is not determinable.

#### NOTE L--OTHER REVENUE

The American Recovery and Reinvestment Act of 2009 and the Health Information Technology for Economic and Clinical Health (HITECH) Act established incentive payments under the Medicare and Medicaid programs for certain healthcare providers that use certified Electronic Health Record (EHR) technology. To qualify for incentive payments, healthcare providers must meet designated EHR meaningful use criteria as defined. Compliance with meaningful use criteria is subject to audit by the federal government or its designee and incentive payments are subject to adjustment in a future period. The Hospital recognizes revenue for EHR incentive payments when substantially all contingencies have been met. The Hospital recognized approximately \$2,300,000 and \$3,400,000 of other revenue related to EHR incentive payments in 2015 and 2014, respectively.

#### NOTE M--BLENDED COMPONENT UNIT INFORMATION

Condensed financial information of the Hospital's blended component units is as follows:

##### Statements of Net Position - June 30, 2015

	<i>Hospital</i>	<i>FHG</i>	<i>Surgery Center</i>	<i>Foundation</i>	<i>Eliminations</i>	<i>Hospital (Blended)</i>
Assets						
Current assets	\$ 79,972,189	\$ 3,222,327	\$ 389,074	\$ 1,326,039	\$ (1,615,021)	\$ 83,294,608
Due (to) from affiliates	1,585,326	(100)	(1,029,045)	-	(989)	555,192
Property, plant, and equipment	111,060,444	1,305,268	4,428,638	-	-	116,794,350
Other assets	84,862,892	-	382,463	-	(11,738,625)	73,506,730
	<u>277,480,851</u>	<u>4,527,495</u>	<u>4,171,130</u>	<u>1,326,039</u>	<u>(13,354,635)</u>	<u>274,150,880</u>
Deferred Outflows of Resources						
Deferred pension adjustments	614,779	-	-	-	-	614,779
Deferred amounts from debt refunding	221,073	-	-	-	-	221,073
	<u>835,852</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>835,852</u>
COMBINED ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$278,316,703</u>	<u>\$ 4,527,495</u>	<u>\$ 4,171,130</u>	<u>\$ 1,326,039</u>	<u>\$ (13,354,635)</u>	<u>\$274,986,732</u>

# MAURY REGIONAL HOSPITAL

## Notes to Combined Financial Statements - Continued

### Years Ended June 30, 2015 and 2014

	<i>Hospital</i>	<i>FHG</i>	<i>Surgery Center</i>	<i>Foundation</i>	<i>Eliminations</i>	<i>Hospital (Blended)</i>
<b>Liabilities</b>						
Current liabilities	\$ 31,990,039	\$ 3,923,137	\$ 1,357,050	\$ -	\$ (1,616,010)	\$ 35,654,216
Long-term debt	35,176,648	-	-	-	-	35,176,648
Other liabilities	10,949,532	-	-	-	-	10,949,532
	78,116,219	3,923,137	1,357,050	-	(1,616,010)	81,780,396
<b>Deferred Outflows of Resources</b>						
Deferred pension adjustments	864,558	-	-	-	-	864,558
<b>Net Position</b>						
Net investment in capital assets	90,968,163	1,305,268	4,428,638	-	-	96,702,069
Unrestricted	108,367,763	(700,910)	(1,614,558)	1,326,039	(11,738,625)	95,639,709
	199,335,926	604,358	2,814,080	1,326,039	(11,738,625)	192,341,778
	\$278,316,703	\$ 4,527,495	\$ 4,171,130	\$ 1,326,039	\$ (13,354,635)	\$274,986,732

#### Statements of Net Position - June 30, 2014 (Restated)

	<i>Hospital</i>	<i>FHG</i>	<i>Surgery Center</i>	<i>Foundation</i>	<i>Eliminations</i>	<i>Hospital (Blended)</i>
<b>Assets</b>						
Current assets	\$ 71,924,943	\$ 4,597,341	\$ 554,668	\$ 1,185,518	\$ (209,941)	\$ 78,052,529
Due (to) from affiliates	1,610,497	4,962	(1,029,045)	-	(1,222)	585,192
Property, plant, and equipment	111,134,233	1,726,764	4,724,338	-	-	117,585,335
Other assets	52,750,162	(40,938)	404,318	-	(10,641,995)	42,471,547
	\$237,419,835	\$ 6,288,129	\$ 4,654,279	\$ 1,185,518	\$ (10,853,158)	\$238,694,603
<b>Deferred Outflows of Resources</b>						
Deferred pension adjustments	-	-	-	-	-	-
Deferred amounts from debt refunding	-	-	-	-	-	-
<b>COMBINED ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	\$237,419,835	\$ 6,288,129	\$ 4,654,279	\$ 1,185,518	\$ (10,853,158)	\$238,694,603
<b>Liabilities</b>						
Current liabilities	\$ 29,467,723	\$ 4,397,892	\$ 588,307	\$ -	\$ (211,163)	\$ 34,242,759
Long-term debt	12,150,086	-	3,634,420	-	-	15,784,506
Other liabilities	8,088,541	-	-	-	-	8,088,541
	49,706,350	4,397,892	4,222,727	-	(211,163)	58,115,806
<b>Deferred Outflows of Resources</b>						
Deferred pension adjustments	1,188,985	-	-	-	-	1,188,985
<b>Net Position</b>						
Net investment in capital assets	96,652,299	1,726,764	501,675	-	-	98,880,738
Unrestricted	89,872,201	163,473	(70,123)	1,185,518	(10,641,995)	80,509,074
	186,524,500	1,890,237	431,552	1,185,518	(10,641,995)	179,389,812
	\$237,419,835	\$ 6,288,129	\$ 4,654,279	\$ 1,185,518	\$ (10,853,158)	\$238,694,603

#### Statements of Revenue, Expenses and Changes in Net Position - Year Ended June 30, 2015

	<i>Hospital</i>	<i>FHG</i>	<i>Surgery Center</i>	<i>Foundation</i>	<i>Eliminations</i>	<i>Hospital (Blended)</i>
<b>Operating Revenue</b>						
Net patient service revenue	\$264,106,370	\$ 30,967,682	\$ 1,079,963	\$ -	\$ -	\$296,154,015
Other operating revenue	14,928,289	4,540,951	-	-	(8,056,718)	11,412,522
	279,034,659	35,508,633	1,079,963	-	(8,056,718)	307,566,537
<b>Operating expenses</b>	244,358,376	40,995,927	1,905,416	565,123	(8,324,710)	279,500,132
Depreciation and amortization	15,414,746	1,054,355	411,679	-	-	16,880,780
<b>INCOME (LOSS) FROM OPERATIONS</b>	19,261,537	(6,541,649)	(1,237,132)	(565,123)	267,992	11,185,625

# MAURY REGIONAL HOSPITAL

## Notes to Combined Financial Statements - Continued

### Years Ended June 30, 2015 and 2014

	Hospital	FHG	Surgery Center	Foundation	Eliminations	Hospital (Blended)
Nonoperating revenue (expenses)	2,290,623	(8,189)	3	705,644	(297,884)	2,690,197
Equity in affiliate losses	(8,404,964)	-	-	-	7,925,394	(479,570)
Interest Expense	(335,770)	(6,339)	(132,069)	-	29,892	(444,286)
EXCESS OF REVENUE OVER EXPENSES	12,811,426	(6,556,177)	(1,369,198)	140,521	7,925,394	12,951,966
Capital contributions/Transfers	-	5,270,298	3,751,726	-	(9,022,024)	-
CHANGE IN NET POSITION	12,811,426	(1,285,879)	2,382,528	140,521	(1,096,630)	12,951,966
NET POSITION, BEGINNING OF YEAR	186,524,500	1,890,237	431,552	1,185,518	(10,641,995)	179,389,812
NET POSITION, END OF YEAR	\$199,335,926	\$ 604,358	\$ 2,814,080	\$ 1,326,039	\$ (11,738,625)	\$192,341,778

### Statements of Revenue, Expenses and Changes in Net Position - Year Ended June 30, 2014 (Restated)

	Hospital	FHG	Surgery Center	Foundation	Eliminations	Hospital (Blended)
Operating Revenue						
Net patient service revenue	\$254,108,622	\$ 28,908,267	\$ 428,587	\$ -	\$ -	\$283,445,476
Other operating revenue	13,589,355	4,923,374	-	-	(6,054,556)	12,458,173
	267,697,977	33,831,641	428,587	-	(6,054,556)	295,903,649
Operating expenses	239,548,362	37,951,373	863,419	473,649	(6,266,150)	272,570,653
Depreciation and amortization	15,965,383	897,871	106,095	-	-	16,969,349
INCOME (LOSS) FROM OPERATIONS	12,184,232	(5,017,603)	(540,927)	(473,649)	211,594	6,363,647
Nonoperating revenue (expenses)	1,673,059	(2,163)	-	752,684	(242,904)	2,180,676
Equity in affiliate losses	(6,488,927)	-	-	-	5,609,568	(879,359)
Interest Expense	(705,980)	(510)	(48,360)	-	31,310	(723,540)
EXCESS OF REVENUE OVER EXPENSES	6,662,384	(5,020,276)	(589,287)	279,035	5,609,568	6,941,424
Capital contributions/Transfers	-	4,478,136	1,020,839	-	(5,498,975)	-
CHANGE IN NET POSITION	6,662,384	(542,140)	431,552	279,035	110,593	6,941,424
NET POSITION, BEGINNING OF YEAR (AS RESTATED)	179,862,116	2,432,377	-	906,483	(10,752,588)	172,448,388
NET POSITION, END OF YEAR	\$186,524,500	\$ 1,890,237	\$ 431,552	\$ 1,185,518	\$ (10,641,995)	\$179,389,812

### Statements of Cash Flows - Year Ended June 30, 2015

	Hospital	FHG	Surgery Center	Foundation	Eliminations	Hospital (Blended)
Cash flows from operating activities	\$ 23,160,554	\$ (590,337)	\$ 4,174,693	\$ (745,089)	\$ -	\$ 25,999,821
Cash flows from noncapital financing activities	1,249,225	-	-	668,676	-	1,917,901
Cash flows from capital and related financing activities	8,503,284	(62,683)	(4,316,786)	-	-	4,123,815
Cash flows from investing activities	(31,254,933)	-	3	36,968	-	(31,217,962)
Increase in cash and cash equivalents	1,658,130	(653,020)	(142,090)	(39,445)	-	823,575
Cash and cash equivalents, beginning of year	36,899,810	(216,640)	338,194	55,764	-	37,077,128
Cash and cash equivalents, end of year	\$ 38,557,940	\$ (869,660)	\$ 196,104	\$ 16,319	\$ -	\$ 37,900,703

# MAURY REGIONAL HOSPITAL

## Notes to Combined Financial Statements - Continued

### Years Ended June 30, 2015 and 2014

#### Statements of Cash Flows - Year Ended June 30, 2014 (Restated)

	<i>Hospital</i>	<i>FHG</i>	<i>Surgery Center</i>	<i>Foundation</i>	<i>Hospital (Blended)</i>
Cash flows from operating activities	\$ 25,631,637	\$ 976,042	\$ 935,036	\$ (847,341)	\$ 26,695,374
Cash flows from noncapital financing activities	531,499	-	-	632,495	1,163,994
Cash flows from capital and related financing activities	(12,605,395)	(824,376)	(596,842)	-	(14,026,613)
Cash flows from investing activities	(5,406,607)	-	-	120,189	(5,286,418)
Increase in cash and cash equivalents	8,151,134	151,666	338,194	(94,657)	8,546,337
Cash and cash equivalents, beginning of year	28,748,676	(368,306)	-	150,421	28,530,791
Cash and cash equivalents, end of year	\$ 36,899,810	\$ (216,640)	\$ 338,194	\$ 55,764	\$ 37,077,128

#### NOTE N--DISCRETELY PRESENTED COMPONENT UNIT INFORMATION

Condensed financial information of the Hospital's discretely presented component units is as follows:

#### Statements of Net Position

	<i>June 30, 2015</i>	
	<i>Imaging Center</i>	<i>VMRO</i>
<b>Assets</b>		
Current assets	\$ 661,440	\$ 172,714
Due (to) from affiliates	(555,192)	-
Property, plant, and equipment	418,667	4,707,602
	<u>\$ 524,915</u>	<u>\$ 4,880,316</u>
<b>Liabilities</b>		
Current liabilities	\$ 515,626	\$ 963,980
Long-term debt	627,516	3,585,788
	<u>1,143,142</u>	<u>4,549,768</u>
<b>Net Position</b>		
Net investment in capital assets	(444,639)	347,537
Unrestricted	(173,588)	(16,989)
	<u>(618,227)</u>	<u>330,548</u>
	<u>\$ 524,915</u>	<u>\$ 4,880,316</u>

**MAURY REGIONAL HOSPITAL****Notes to Combined Financial Statements - Continued****Years Ended June 30, 2015 and 2014**

	<b>June 30, 2014</b>	
	<b>Imaging Center</b>	<b>VMRO</b>
<b>Assets</b>		
Current assets	\$ 538,776	\$ 342,891
Due (to) from affiliates	(585,192)	-
Property, plant, and equipment	481,114	5,314,890
	<u>\$ 434,698</u>	<u>\$ 5,657,781</u>
<b>Liabilities</b>		
Current liabilities	\$ 201,411	\$ 828,768
Long-term debt	661,777	4,360,459
	<u>863,188</u>	<u>5,189,227</u>
<b>Net Position</b>		
Net investment in capital assets	(180,663)	214,301
Unrestricted	(247,827)	254,253
<b>Net Position</b>	<u>(428,490)</u>	<u>468,554</u>
	<u>\$ 434,698</u>	<u>\$ 5,657,781</u>

**Statements of Revenue, Expenses and Changes in Net Position**

	<b>Year Ended June 30, 2015</b>	
	<b>Imaging Center</b>	<b>VMRO</b>
Operating revenue	\$ 2,667,787	\$ 1,890,673
Operating expenses	2,737,088	1,713,741
Depreciation and amortization	73,706	607,287
<b>INCOME (LOSS) FROM OPERATIONS</b>	<u>(143,007)</u>	<u>(430,355)</u>
Interest expense	46,730	207,651
<b>DEFICIT OF REVENUE OVER EXPENSES</b>	<u>(189,737)</u>	<u>(638,006)</u>
Capital contributions/transfers	-	500,000
<b>CHANGE IN NET POSITION</b>	<u>(189,737)</u>	<u>(138,006)</u>
<b>NET POSITION, BEGINNING OF YEAR</b>	<u>(428,490)</u>	<u>468,554</u>
<b>NET POSITION, END OF YEAR</b>	<u>\$ (618,227)</u>	<u>\$ 330,548</u>

**MAURY REGIONAL HOSPITAL*****Notes to Combined Financial Statements - Continued******Years Ended June 30, 2015 and 2014***

	<b><i>Year Ended June 30, 2014</i></b>	
	<b><i>Imaging</i></b>	
	<b><i>Center</i></b>	<b><i>VMRO</i></b>
Operating revenue	2,274,872	665,063
Operating expenses	2,170,935	1,192,609
Depreciation and amortization	73,175	605,845
	30,762	(1,133,391)
Interest Expense	49,074	316,642
EXCESS (DEFICIT) OF REVENUE OVER EXPENSES	(18,312)	(1,450,033)
Capital contributions/Transfers	300,000	350,000
CHANGE IN NET POSITION	281,688	(1,100,033)
NET POSITION, BEGINNING OF YEAR	(710,178)	1,568,587
NET POSITION, END OF YEAR	\$ (428,490)	\$ 468,554

The Imaging Center owes MRMC approximately \$555,000 and \$585,000 for reimbursement of expenses at June 30, 2015 and 2014, respectively. MRMC made capital contributions to the Imaging Center totaling \$153,000 for the year ended June 30, 2014. MRMC made capital contributions to VMRO totaling \$300,000 and \$210,000 for the years ended June 30, 2015 and 2014, respectively.

### **SECTION III**

### **REQUIRED SUPPLEMENTARY INFORMATION**

**MAURY REGIONAL HOSPITAL*****Schedule of Changes in Net Pension Liability and Related Ratios******Years Ended June 30, 2015 and 2014***

	<b><i>2015</i></b>	<b><i>2014</i></b>
Total pension liability		
Service cost	\$ 505,975	\$ 537,777
Interest	3,628,986	3,534,471
Differences between expected and actual experience	825,938	(163,079)
Changes of assumptions or inputs	-	-
Benefit payments	(2,853,179)	(2,538,680)
Net change in total pension liability	2,107,720	1,370,489
Total pension liability, beginning of year	46,282,937	44,912,448
Total pension liability, end of year	<u>\$ 48,390,657</u>	<u>\$ 46,282,937</u>
Plan fiduciary net position		
Contributions - employer	\$ 802,000	\$ 828,000
Net investment income, net	3,304,037	4,539,172
Benefit payments	(2,853,179)	(2,538,680)
Administrative expense	(260,570)	(233,515)
Net change in plan fiduciary net position	992,288	2,594,977
Plan fiduciary net position, beginning of year	43,593,225	40,998,248
Plan fiduciary net position, end of year	<u>\$ 44,585,513</u>	<u>\$ 43,593,225</u>
Net pension liability, end of year	<u>\$ 3,805,144</u>	<u>\$ 2,689,712</u>
Fiduciary net position as a percentage of the total pension liability	92%	94%
Covered-employee payroll	\$ 24,915,801	\$ 26,897,136
Net pension liability as a percentage of covered-employee payroll	15%	10%

# MAURY REGIONAL HOSPITAL

## *Schedule of Actuarial Contributions*

### *Years Ended June 30, 2015 and 2014*

	2015	2014	2013	2012	2011	2010	2009*	2008*	2007*	2006*
Actuarially determined contributions	\$ 802,000	\$ 828,000	\$ 849,000	\$ 728,000	\$ 752,987	\$ 785,010	\$ -	\$ -	\$ -	\$ -
Actual employer contributions	802,000	828,000	849,000	728,000	752,987	785,010	-	-	-	-
Contribution deficiency	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered-employee payroll	\$ 24,915,801	\$ 26,897,136	\$ 28,852,878	\$ 29,504,598	\$ 29,775,815	\$ 31,543,626	\$ 33,943,822	\$ 35,131,145	\$ 35,461,450	\$ 36,348,858
Contributions as a percentage of covered-employee payroll	3%	3%	3%	2%	3%	2%	0%	0%	0%	0%

#### Notes to Schedule:

- Valuation date: Actuarially determined contribution rates are calculated as of April 30, one year prior to the end of the fiscal year in which contributions are reported.
- Actuarial cost method: Entry age
- Amortization method: Level percentage of pay
- Amortization period: 30 years
- Asset valuation method: Market value of assets
- Inflation: 2.5%
- Lump sum interest rate: N/A
- Salary increases: 4.0% - 7.5% using an age based salary scale
- Investment rate of return: 8.00%
- Retirement age: Normal retirement at 65 years, early retirement at 55 years with 5 years of service
- Mortality: 1994 Group Annuity Mortality Basic Table with mortality improvement projected to the valuation year under Projection Scale AA

\* No contribution required

## **SECTION IV**

### **INTERNAL CONTROL AND COMPLIANCE SECTION**



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of  
Maury Regional Hospital:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States the combined financial statements of the business-type activities and the aggregate discretely presented component units of Maury Regional Hospital (the Hospital) as of and for the year ended June 30, 2015, and the related notes to the combined financial statements, which collectively comprise the Hospital's basic combined financial statements, and have issued our report thereon dated October 16, 2015.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the combined financial statements, we considered the Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal

control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Hospital's combined financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the Hospital's combined financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### ***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control and compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Perishing Yawley: Associate PC*

Knoxville, Tennessee  
October 16, 2015

# MAURY REGIONAL HOSPITAL

## *Schedule of Expenditures of Federal Awards*

*Year Ended June 30, 2015*

<i>Grantor</i>	<i>Pass-Through Grantor Agency</i>	<i>Program Name</i>	<i>CFDA Number</i>	<i>Grant Number (Grant Period)</i>	<i>Federal Expenditures</i>
U.S. Department of Health and Human Services	State of Tennessee Department of Health	Bioterrorism Hospital Preparedness	93.074	GE-14-38578 (7/1/13 - 6/30/14)	\$ 47,671
				GE-15-44063 (7/1/14 - 6/30/15)	4,682
					52,353
U.S. Department of Health and Human Services	n/a	Community Health Centers	93.224	H80CS26598 (11/1/13 - 1/31/16)	702,827
U.S. Department of Health and Human Services	State of Tennessee Department of Health	Rural Health Network Development	93.912	P10RH27745 (9/1/14 - 8/31/15)	8,241
U.S. Department of Health and Human Services	State of Tennessee Department of Health	Small Health Care Provider Quality Improvement	93.912	GR-15-40750 (4/1/14 - 8/31/14)	8,600
				GR-14-37023 (6/1/13 - 8/31/13)	8,800
					17,400
Total U.S. Department of Health and Human Services					780,821
Total Expenditures of Federal Awards					\$ 780,821

## MAURY REGIONAL HOSPITAL

### *Notes to Schedules of Expenditures of Federal Awards*

*Year Ended June 30, 2015*

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#### NOTE A--BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Maury Regional Hospital (the Hospital) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the Tennessee Comptroller of the Treasury, respectively. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic combined financial statements.

#### NOTE B--CONTINGENCIES

The Hospital's federal programs are subject to financial and compliance audits by grantor agencies which, if instances of material noncompliance are found, may result in disallowed expenditures and affect the Hospital's continued participation in specific programs. The amount, if any, of expenditures which may be disallowed by the grantor agencies cannot be determined at this time, although the Hospital expects such amounts, if any, to be immaterial.

## MAURY REGIONAL HOSPITAL

### *Schedule of Findings and Questioned Costs*

*Year Ended June 30, 2015*

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#### Section I - Summary of Auditor's Results

##### FINANCIAL STATEMENTS

The auditor's report expressed an unmodified opinion on the combined financial statements of Maury Regional Hospital.

##### **Internal control over financial reporting:**

Material weakness(es) identified?	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>
Significant deficiency identified not considered to be material weaknesses?	None Reported
Noncompliance material to combined financial statements noted?	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>

##### FEDERAL AWARDS

The auditor's report on compliance for the major federal award programs for Maury Regional Hospital expresses an unmodified opinion on its major federal programs.

##### **Internal control over major programs:**

Material weakness(es) identified?	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>
Significant deficiency identified not considered to be material weaknesses?	None Reported

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes ☐ No ☒

##### **Identification of Major Programs:**

###### **CFDA Number(s)**

###### **Name of Federal Program or Cluster**

93.224

U.S. Department of Health and Human Services - Community Health Centers

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? Yes ☒ No ☐

## MAURY REGIONAL HOSPITAL

### *Schedule of Findings and Questioned Costs - Continued*

*Year Ended June 30, 2015*

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#### **Section II - Financial Statement Findings**

This section identifies the significant deficiencies, material weaknesses, fraud, illegal acts, violations of provisions of contracts and grant agreements, and abuse related to the financial statements for which *Government Auditing Standards* require reporting in a Circular A-133 audit.

Not applicable, no financial statement findings.

#### **Section III - Federal Award Findings and Questioned Costs**

This section identifies the audit findings required to be reported by Section 510(a) of Circular A-133 (for example, significant deficiencies, material weaknesses, and material instances of noncompliance, including questioned costs), as well as any abuse findings involving federal awards that are material to a major program.

Not applicable, no findings or questioned costs.

**MAURY REGIONAL HOSPITAL**

***Schedule of Prior Audit Findings***

***Year Ended June 30, 2015***

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There were no prior audit findings.

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM  
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of  
Maury Regional Hospital:

***Report on Compliance for Each Major Federal Program***

We have audited Maury Regional Hospital's (the Hospital) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015. The Hospital's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the Hospital's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Hospital's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Hospital's compliance.

### ***Opinion on Each Major Federal Programs***

In our opinion, the Hospital complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

### ***Report on Internal Control Over Compliance***

Management of the Hospital is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Hospital's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Perdnie Yrally: Annick Mc*

Knoxville, Tennessee  
February 10, 2016